



**VERMONT PENSION INVESTMENT COMMITTEE
JULY 28, 2015**

VPIC Members Present:

STEPHEN RAUH, CHAIR
BETH PEARCE, VICE-CHAIR, Vermont State Treasurer
VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2018
KAREN PAUL, Governor's Delegate, term expiring June 30, 2018
THOMAS GOLONKA, VMERS Representative, term expiring June 30, 2016
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016

VPIC Member(s) Absent:

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2015

VPIC Alternate Members Present:

LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2017
DAVID STARR, Governor's Delegate *Alternate*, term expiring June 30, 2016
JEFF BRIGGS, VSERS *Alternate*, term expiring June 30, 2016

VPIC Alternate Member(s) Absent:

None

Also attending:

Matt Considine, Director of Investments
Nick Foss, Investments Analyst
Katie Green, Investments Manager
Jaye Pershing-Johnson and Jesse Moorman, Attorney General's Office
Doug Moseley and Chris Levell, NEPC LLC
Kai Petersen and David Driscoll, Buck Consultants
VMERS Board
VSERS Board
VSTRS Board

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, July 28th meeting to order at 8:30 am, which was held in the Pavilion Auditorium, 109 State Street, Montpelier, VT.

ITEM 1: Agenda Approval and Announcements

The Chair, Mr. Rauh, reviewed the agenda with the Committee and, hearing no objection, indicated the agenda was approved as written.

ITEM 2: Joint Meeting with Pension Boards to Consider Investment Return Assumption

The VSERS Board was called to order at 8:34 AM

The VSTRS Board was called to order at 8:35AM

The VMERS Board was called to order at 8:35AM

The Treasurer, Ms. Pearce, introduced Buck Consulting actuaries David Driscoll and Kai Petersen to the Committee. Representatives from Buck Consulting briefly reviewed the actuarial studies conducted for all the state's retirement systems and went in depth on the General Economy Market Simulator (GEMS) product that is used to forecast their capital market assumptions.

Beth Pearce made a motion on behalf of VPIC, VMERS, VSTRS, and VSERS, seconded by Jim Reardon on behalf of VSERS, Vaughn Altemus seconded on behalf of VSTRS and VPIC, and Tom Golonka seconded on behalf of VMERS to adopt the 7.95% actuarial required rate of return.

Jim Reardon made a motion for the VSERS board to adjourn, seconded by Jaye Wisner

Vaughn Altemus made a motion for the VSTRS board to adjourn, seconded by Beth Pearce

Peter Amons made a motion for the VMERS board to adjourn seconded by Tom Golonka

ITEM 3: Consent Agenda

- **Minutes of June 23, 2015 – Regular Meeting**
- **Routine Contract Amendments and Renewals**

The Chair, Mr. Rauh, indicated the items in the Consent Agenda today were the minutes and routine contract items.

On a motion by Karen Paul, seconded by Beth Pearce, the Committee unanimously approved a motion to approve the Consent Agenda as written.

ITEM 4: Director of Investments Report and Action Items

Mr. Considine reviewed the Director of Investments Report with the Board. He outlined the Portfolio Asset Allocation table and notified the board that, as of June 30th, the VPIC composite AUM was at \$4 billion and the allocations were in line with their target allocations. Mr. Considine notified the Board that Staff had been contacted about an additional offering being made available exclusively to current limited partners of Siguler Guff's DREOF II fund. Mr.

Considine provided an update on quarterly contracts in process, or currently being negotiated, as well as noted Staff's review on the prospects of divestment will be reviewed later in the meeting.

ITEM 5: Discussion Items and Updates

- **Vermont State Treasurer's Update**

The Treasurer, Ms. Pearce, presented the Treasurer's Report for the Board. She outlined the financial impact the recently completed experience studies are having on all the state's retirement systems, and answered any questions from the Committee. Treasurer Pearce also notified the Committee that an education session centering on Environmental Social Governance (ESG) factors, retirement funding, GASB regulatory changes, and a number of other issues pertinent to the retirement systems will be taking place on September 4th at 8:00AM, with the location to be announced soon. Finally, Treasurer Pearce noted that she, as capacity as Treasurer, had supported an SEC measure that would promote increased private equity fees disclosure.

On a motion by Vaughn Altemus, seconded by Bob Hooper, the Committee unanimously approved a motion to support the efforts of the Treasurer in working with other Treasurers to increase transparency at the SEC by requiring General Partners make better disclosures of private equity expenses to Limited Partners

- **June Flash Report**

The June Flash report was not available to the Committee members because of production issues caused by the fiscal year end.

- **NEPC Investment Manager Watch List: PIMCO, Schroder**

Mr. Moseley indicated that both the PIMCO Unconstrained Bond Fund and Schroders remain on the NEPC Watch List. Mr. Moseley mentioned that NEPC continues to recommend that VPIC begin the process on searching for a new commodity manager to replace Schroder.

Due to the public interest in the fossil fuel divestment discussion the Board discussed the rules governing public comment. Mr. Rauh noted the standard practice of public comment and recommended that if public comment were to be changed, it occur during the upcoming governance discussion that will take place later this year. The Committee discussed a number of alternatives for the current meeting and compromised on having public comment at the standard position in the agenda, but delaying a vote on fossil-fuel divestment until after the public comment period.

ITEM 6: Investment Management Fee Review
(Moved to ITEM 6 from ITEM 7 on the agenda)

Mr. Moseley and Mr. Levell reviewed with the Committee NEPC's "Investment Management Fee Review" Document. NEPC responded to questions posed by the Committee members. Mr. Golonka requested that NEPC provide the Committee with an all-in fee that reflects the amount

that VPIC is paying on the entire portfolio. He also requested that this all-in fee be presented over time, with the idea that the Committee can compare it to other pension funds and continue to monitor it going forward.

On a motion by Beth Pearce, seconded by Linda Deliduka, the Committee unanimously approved a motion to direct NEPC, in conjunction with Staff, to begin the search for a new commodity manager.

ITEM 7: Economic and Financial Market Dashboard
(Moved to ITEM 7 from ITEM 8 on the agenda)

Ms. Green reviewed with the Committee the economic and financial market dashboard. The Committee discussed the positive and negative factors on the economic and financial market dashboard.

ITEM 8: Fossil Fuel Divestment Discussion/Action

- **ESG Policy Framework**
- **NEPC and Staff Recommendations**
 - **VPIC Current Coal/Coal Related Holding**

Mr. Moseley reviewed with the Committee NEPC's "Fossil Fuel Divestment Discussion" document and responded to questions posed by the Committee members.

Mr. Considine reviewed with the Committee Investment Staff's "Fossil-fuel Divestment Analysis" memo and responded to questions posed by the Committee members.

The Treasurer, Ms. Pearce, reviewed with the Committee the "Position of State Treasurer on Fossil Fuel Divestment" memo and responded to questions posed by the Committee members.

Ms. Paul mentioned that at the May meeting she had asked for the direct impact on coal on the VPIC portfolio rather than fossil-fuel divestment as a whole. Ms. Paul also mentioned that she felt the ESG policy could be crafted in a way to make it more flexible and believes that sub-committees could be useful in this endeavor.

Mr. Briggs mentioned that he would like to see VPIC discuss a plan to reduce its exposure to carbon over time.

Mr. Golonka noted that due to divestment not meeting the VPIC ESG criteria, as well as the request by the VMERS Board not to divest, he sees no possibility for having a vote.

Mr. Altemus mentioned that as a fiduciary he cannot support divestment and is concerned of the increased fees from customization and loss of proprietary investment products that would result from having to divest.

Mr. Hooper and Mr. Starr noted that they both did not support fossil-fuel divestment.

(A recess was taken from 12:00 – 12:30)

ITEM 9: Public comment

(Moved to ITEM 9 from ITEM 10 on the agenda)

Eric Becker from Clean Yield Asset Management gave testimony.

Yolanda Stinson from Connecticut Coalition for Environmental Justice gave testimony.

Representative from the Sierra Club gave testimony.

Maeve McBride gave testimony on behalf of Stephanie Leighton, Trillium Asset Management.

Joannie McClay former Vermont State Employee gave testimony.

Bernie Peters former Vermont State Employee gave testimony.

Mike O'Neal, President of the Vermont Troopers Association gave testimony.

Ed Tango, Vice-President of the Vermont State Employees Retirement Board gave testimony.

Robert Stone, Chair of the non-management unit of the Vermont State Employees gave testimony

Karen Stack gave testimony on behalf of Duane Peterson of Suncommon.

Ed Stanak retired Vermont State Employee gave testimony.

Catherine Lowther of Goddard College gave testimony.

On a motion by Beth Pearce, seconded by Linda Deliduka, the Committee unanimously approved a motion to reject fossil-fuel divestment because it in whole or in-part is inconsistent with VPIC's Environmental, Social, & Governance (ESG) policy.

ITEM 10: Future Agenda Topics/New or Other Business

Mr. Rauh indicated a number of upcoming agenda topics and asked the Board if they had any topics they would like added to future agendas. Mr. Rauh indicated there was no new or other business to come before the Board.

The Chair, Mr. Rauh, indicated that the Board has now considered fossil fuel divestment three times now. And, because of the substantial amount of time it has consumed for both Investments Staff and NEPC, it would not be added back on to the agenda without a majority vote from the Board.

ITEM 10: Adjournment

Mr. Rauh adjourned the meeting at

Respectfully submitted,

Nick Foss

Investments Analyst